Appendix A

Anthem – Blue Cross

CalPERS Single Administrator

Anthem Blue Cross has participated in several discussions with CalPERS regarding the Single Administrator concept. Our responses vary based on CalPERS' ultimate goal. In reviewing the aspects to be included in our response, we believe that we appreciate the goal; however, in order to address, we need to still present our observations with several assumptions and consider the four different scenarios discussed in context of the items outlined in your letter.

Candidly, we believe CalPERS could best achieve the goals of the Single Administrator by assuming the administrative role themselves independently and managing the process towards their ultimate goals. Further, by CalPERS initiating the process independently, the evolution of the Single Administrator concept could coincide with advents in the health care financing and technology that would allow for the direction to be altered in accordance with these developments. A single administrator strategy may allow CalPERS to reduce duplication of administrative functions by having a mandated technological infrastructure for any participating health plans.

We have provided our response below in the context of the aspects outlined in the letter.

Assumptions:

We assume CalPERS will continue to offer at least three network models within the Single Administrator concept. Those plans would be a Preferred Provider Organization, a delegated Health Management Organization and a staff-model Health Management Organization.

Basic Scenarios Discussed:

- Anthem Blue Cross as the single administrator of the PPO and delegated HMO utilizing our proprietary networks with the staff model remaining independent.
- An independent vendor, such as a managed care organization, as the Single Administrator managing multiple network models from one or more plans.
- CalPERS as the Single Administrator managing the network models.
- CalPERS, filed as a Health Plan with the DMHC, as the Single Administrator.

To reduce and/or minimize administrative cost increases over the next 10 years.

Without appreciating the current financial arrangements offered through the delegated or staff model HMOs, it is difficult to address this question completely; however, under a Single Administrator, redundancies could potentially be eliminated by creating a single interface with all plans. This single interface could potentially reduce costs and help control long-term administrative increases. This is applicable in all four scenarios to a certain degree, but the cost of the Single Administrative body itself, which would vary based on scenario, would need to be factored into this hypothesis. However, for Scenario 1, Anthem Blue Cross as the single administrator, this scenario could provide immediate efficiencies such as:

- Comparable networks and service capabilities with less administrative overhead
- Ease of collaborations in moving health transformation initiatives forward such as E-Prescribing and Health I.T.

- Greater focus on dollars being deployed to CalPERS member gain
- Ability to leverage Anthem's national reach and local market share to take advantage of programs developed in other states or markets which can have value for California and CalPERS

Streamline efficiencies by increasing standardization across plans (e.g.; Pharmacy Benefit Manager [PBM]) and Health and Disease Management (H&DM) programs.

The Single Administrator could create a single interface and manage the selection of best-in-class vendors for every aspect of the benefit program from network to pharmacy to disease management. This would be accomplished through greater control, better knowledge and more access to specific CalPERS data and requests for proposal analysis that addressed specifically CalPERS' goals. This overall direction could potentially provide some administrative rate reduction through the standardization of programs and the single focus on CalPERS' goals. Additionally, costs could be managed through a single direction relative to overall health care financing without the need to balance between potentially conflicting segments (i.e., drug benefits that support medical benefit cost controls). For instance, medication adherence programs are clearly successful in reducing the cost of total care. However, without an integrated data set to be able to easily see that an increase in drug costs may be offset by reductions in medical costs creates challenges in configuring the analytics to drive integrated programs which create results.

Variations of the basic scenarios would be as follows (we only see two scenarios being impacted uniquely):

- Anthem as the single administrator could further reduce inherent redundancies and provide greater administrative cost control for the PPO and delegated HMO.
- CalPERS as a Health Plan may be better positioned to manage regulatory implications impacting cost.

Achieve Potential Cost Savings

Before detailing the individual aspects, it should be observed that most health care cost savings are derived from network and utilization management, benefit plan management, and overall health care trend implications. These traditional levers have served us in the past and will continue to play a leading role, however looking to the future, it is clear that we must more effectively address chronic disease management. Chronic disease requires preventive strategies which support at risk members from avoiding disease while supporting those that have disease for the best possible outcomes. Chronic disease management requires a holistic view of the patient. Fragmented care, fragmented data sets, and fragmented administration all leads to sub optimal results and directly inhibit the ability of plans and providers to meet this ever expanding need.

The single administrator could serve as the single conduit for information that allowed for the direction of the network plans management to better achieve CalPERS' ultimate cost goals. The challenge would continue to be managing the forces that influence CalPERS' cost controls in today's environment such as members' desire for favorable benefit designs and consumer reluctance to allow plan management of clinical decisions.

All four scenarios support this equally and will face the same challenges; however, CalPERS as a health plan may have a better opportunity to influence legislative and regulatory policies (if successful) that support cost management.

Improve the Quality of Care.

The improvement of quality of care rests primarily, in today's market, on the ability to deliver evidence based medicine. With that in mind, all four scenarios could improve the quality of care by focusing on evidence-based medicine and providing member direction and benefit plan design without consideration for network model. This application would assume a self-funded framework for all network models, allowing the single administrator to direct towards evidence-based care without network model restrictions and individual member discretion.

Reduce Adverse Risk Selection.

In all scenarios, except Anthem Blue Cross as the single administrator, the key to reducing adverse selection is ensuring all programs are managed under a single underwriting platform. In order to accomplish this task, any of the four scenarios would need to require delivery of care through the network models on a self-funded type basis. With all medical costs borne by CalPERS through the single administrator, adverse selection would not be a factor since all risk would be assumed by CalPERS. Within this platform, member direction could be delivered exclusively on consumer selection, based on preference of benefit, network and contributions. The Single Administrator, in any of the scenarios, could manage those aspects based on actual care costs.

Under scenario 1, with Anthem Blue Cross as the single administrator, the need of the staff model HMO being self-funded could not be mandated and therefore potentially not manage adverse selection as described.

What are the California health care cost drivers that make the STPA concept worthy of pursuing?

Again, all four scenarios could help address the cost drivers. The key will be in the variety of responses from the chosen network administrators; however, without reducing the concepts based on unknown possibilities, the STPA could help manage technologies that will improve the delivery of care, member and provider specific reporting that can define and direct members to appropriate evidence based medicine, and the uniform application of benefits based on cost against all network models.

What do you see as the role of the health plan?

The primary role of the health plan remains the interface between the member and the provider. In each of the four scenarios retention of a provider conduit and financing method remains integral. The health plans would be determined based on best in class and network models desired by CalPERS through the single administrator. However, advances in information technology are allowing the health plan role to be expanded. For example, our data; although limited by its billing nature, is increasingly being leveraged for clinical gain. Our capabilities are expanding into drug safety research, Informatics, and disease management. As such, competitive health plans in the future will use their scale and size to reduce administrative costs while investing in information driven services which improve the care process itself.

What are the benefits and potential drawbacks that CalPERS could expect from a STPA model?

The drawbacks are rather simple. Can the STPA attain value beyond what is already available without adding costs and disenfranchising constituents?

The drawback of an overall conversion to Single Administrator would incur immediate costs, without potentially the desired cost controls, and those expenditures would not be recovered. Except for CalPERS as the Single Administrator, utilizing a pragmatic incremental installation approach, the potential exists for redundant costs without the desired management of overall costs. The concept of Anthem Blue Cross as administrator, although not subject to the additional costs, would entail consolidation that could restrict CalPERS' future flexibility.